

PERAC AUDIT REPORT



New Bedford Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2004 / PERAC 04: 10-066-17



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

May 22, 2006

The Public Employee Retirement Administration Commission has completed an examination of the **New Bedford** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, 2001 to December 31, 2004. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Martin J. Feeney and Mary Dundas who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



New Bedford Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

1. Cash:

The previous retiree payroll account shows ninety-nine (99) checks totaling \$53,254.81 outstanding. These outstanding checks show issue dates from 1996 to 2002. The Executive Director is not certain that all these checks are in fact outstanding.

Recommendation:

The Executive Director should work with the bank to determine the status of all outstanding checks. Those that are determined to be outstanding should be voided and new checks issued in their place. The checks determined to be no longer outstanding should be voided and credited to the Pension Fund Account.

Once the above has been completed and the outstanding checks processed through the account, the account should be closed.

Board Response:

The Board agrees with the finding and recommendation. As discussed at the exit conference with the PERAC audit staff, the appropriate accounting entries will be processed and the account closed.

2. Membership:

a. As reported in the last audit, the Board does not receive adequate information from all units with which to ascertain the accuracy of members' deductions. Some unit deduction reports lack fundamental detail as to what pay categories are considered subject or not subject to retirement deductions and are insufficient to determine that contributions are only taken from regular compensation.

b. As in the last audit, there were members in this sample who were not having the additional 2% deduction correctly withheld from income over \$30,000 per year, pro-rated on a per payroll basis. In particular, the Greater New Bedford Regional Vocational Technical High School continues to violate G.L. c. 32, § 22 by incorrectly withholding this incremental deduction from all members to whom it applies.

c. In addition to errors in contribution rates, mistakes were found in this sample relating to creditable service, incorrect membership dates, buybacks withheld as pre-tax contributions, post-tax deductions incorrectly recorded, deductions withheld from a pay type that appears to not be regular compensation, an employee excluded from membership, and members whose accounts have not been transferred. A number of errors reported in the last audit have yet to be corrected, and some of the affected members have since retired.

New Bedford Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

Recommendation:

a. The Board must initiate a system of obtaining detailed payroll information from each unit, which includes the following member information:

1. Name,
2. Social Security or employee number,
3. Membership date,
4. Contribution rate,
5. Compensation by type: total, regular, overtime, other,
6. Regular and 2% incremental deductions,
7. Any other information deemed appropriate.

This data must be routinely reviewed by the Board to ensure that proper deductions are being withheld.

An assessment of the various pay categories should be performed in conjunction with payroll personnel from each department to further ensure that the appropriate pay types are considered regular compensation.

The Executive Director should annually receive a listing of personnel who do not contribute to the Retirement System to verify accuracy in that respect.

b. According to G.L. c. 32, § 22(1)(b1/2), 840 CMR 8.03, and PERAC memos #12/1996 and #43/1999, all members who enter the system after January 1, 1979, and whose rate of pay on any given pay period exceeds an annualized rate of \$30,000, are subject to the additional 2% withholding. Under G.L. c. 32, § 24, *Violations of contributory retirement laws*, the Board may compel statutory compliance from employees of a unit who refuse or neglect to comply with the statute.

c. The Board has taken steps to correct members' files and accounts since the last audit. However, the remainder of the identified errors must be addressed. We believe that ongoing reviews and corrections are needed and that the Board will benefit from utilizing the information provided by PERAC during these two recent audits when undertaking its next review of membership data.

Board Response:

The Board agrees with the finding and recommendation with regard to the Greater New Bedford Vocational Technical School and will take appropriate action.

The New Bedford Retirement Board respectfully offers the following comments regarding the membership findings:

New Bedford Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

- With respect to comments regarding “inadequate information regarding member deductions”. In 2004, the staff of the New Bedford Contributory Retirement System identified 135 errors in member contributions, notified the appropriate units and collected any funds due the System. We believe that this is an indication that we are obtaining information that permits the staff to determine correct contribution data and that we are vigilant in our effort to correct errors.
- With respect to errors referenced as “with creditable service and membership dates”. We are aware that some errors exist and the effort is ongoing to address this.
- With regard to the error referenced as “buybacks”. The error that occurred is a single error in a small unit and is isolated. We have notified the unit of the error.
- With respect to the error referenced as “members whose accounts have not been transferred”, upon receipt of a request for transfer from the member’s new system, the funds will be transferred.
- With respect to the auditor’s identification of “deductions withheld from a pay type that appears to not be regular compensation”. This matter was discussed with the auditor; the issue here is that of an inappropriate account description and not one involving an error in regular compensation.

3. Current Retirees:

As reported in the last audit, the Board is calculating the three-year average salary from recorded deduction amounts. Since the Board does not receive detailed payroll information, the deductions cannot be verified and an incorrect average salary may be used in the pension calculation. A beneficial practice is for department-heads to verify and approve three-year salary averages.

Recommendation:

The Board must receive detailed payroll information in order to ensure proper calculation of average salary. This information should be maintained in retirees’ files for future reference.

Board Response:

The New Bedford Retirement Board respectfully takes exception to the finding that the three-year average salary calculations are not based on payroll information.

Three-year salary calculations for superannuation purposes are based on payroll information obtained from the appropriate unit. Calendar year deductions and payroll information are reconciled. During the course of this exercise we have identified and corrected the following issues:

New Bedford Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

- Member deductions being taken on sick and vacation payoffs;
- Member deductions being taken on sick time bonus payments;
- At two units, member deductions not being taken on summer earnings;
- At two units, 2% deductions taken in error or not taken;
- Payments made due to contract settlements are segregated and the amount includible in the three-year salary average is properly calculated.

If the System were employing a “deduction posting” methodology to develop the three-year salary average these issues would not be identified.

4. Refunds:

Several refunds appear to have the incorrect amount of interest credited to members whose funds were not withdrawn until after the members had been gone for over two years. The system appears to be calculating the interest on members’ funds after the maximum two-year period.

In some instances, members were refunded more interest than they were due, at least one of which could be considered excessive.

Recommendation:

The Board has used its computer software to calculate some refunds in 2005 that are over the two-year maximum period for paying interest to ensure that the calculations are correct. The system now appears to be calculating correctly. The Board should manually check future calculations to ensure that they are correct.

The Board should also ensure that they pursue the overpayment of interest given to the member mentioned above.

Board Response:

The Board agrees with the finding and recommendation.

5. Minutes:

- a. The Board does not discuss disability applications in executive session.
- b. The Board has not maintained minutes of any executive sessions. There were three known executive sessions during the audit period.

New Bedford Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

Recommendation:

a. The Board must comply with the Open Meeting Laws of the Commonwealth, as described in G.L. c. 39, § 23B.

b. The Board is required to record the minutes of executive sessions in accordance with 840 CMR 6.12 and 10.12(3)(e), and G.L. c. 32, § 20(5).

Board Response:

Executive Sessions of Disability Retirements

The New Bedford Retirement Board respectfully takes exception to the executive session finding based on the following:

- The authorization/consent form signed by the member, contained on page 13 of the PERAC *Member's Application For Disability Retirement* entitled *Retirement Board Authorization to Use or Disclose Protected Health Information*; grants the Board the ability to discuss such matters at an open meeting setting. The form states "... information used or disclosed pursuant to this authorization could be subject to redisclosure by the recipient (the Board) and, if so, may not be subject to Federal or State law protecting its confidentiality. Information released on this authorization, if redisclosed by the recipient (the Board), is no longer protected".
- In obtaining the member's authorization discussed above, the Board is of the opinion that it has met the burden required for public disclosure at 840 CMR 6.00. The PERAC regulation dealing with privacy-standards states at 840 CMR 6.03(1):

“ Without the written consent of the data subject or his or her authorized representative, no retirement board shall disclose to any person outside the board any personal information contained in a personnel or medical file which may be identified or associated with the data subject or other material or data pertaining to a specifically named individual if such disclosure may constitute an unwarranted invasion of personal privacy unless such disclosure is required by Federal or State statute or regulation”.

- The PERAC Training Services manual entitled *Pension Legal Issues* contains sample board minutes (see page 59) that the manual refers to as “a good example of retirement board minutes (see page 54)”. In the sample, reference is made to a specific medical condition of a member applying for disability retirement; no reference is made of any executive session in the sample. Since the training manual contains no qualifications regarding legal or style content of the minutes, the Board can only assume that this “good example” of sample minutes is in compliance with the statute (M.G.L.) and regulation (CMR) and that use of such a format would be appropriate.

New Bedford Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

- Finally, the Board minutes maintain the individual's privacy and no reference is made to a specific medical condition, only a general reference to medical records.

In the future, the Board will assess each disability application and utilize executive session when it is appropriate.

6. Investments:

In 2004, the Retirement System did not receive statements of account for the year 2004 from two Real Estate Investment Companies until June 2005. As a result, the Executive Director used the nine-month statement in reporting results. This could mean that total income or loss for the System is overstated or understated for the year.

Recommendation:

The management companies should be made aware of the necessity for the Retirement System to receive investment information on a timely basis, since the System has reporting requirements that are time sensitive.

In addition, the Executive Director should notify PERAC that his 2004 Annual Statement used some information that did not reflect the twelve-month period.

Board Response:

The Board does not disagree with the finding, but feels the following statement is necessary to clarify the finding.

The Board is of the opinion that there were no options available but to report the financial results of the investments on a less than 12 month basis since the statute mandated annual report is due to PERAC on May 1 of each year and the two investment managers in question did not report the quarter ended December 31, 2004 results until June 2005 and August 2005.

The Board will comply with the PERAC recommendation.

Final Determination

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

New Bedford Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2004	2003	2002	2001
Cash	\$2,773,537	\$4,470,737	\$14,196,924	\$4,298,062
Short Term Investments	0	0	0	0
Fixed Income Securities (at book value)	55,039,483	52,140,311	55,803,892	61,571,862
Equities	79,206,580	70,398,118	41,130,309	57,121,511
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	480,900	19,621,728	10,358,187	11,728,228
Pooled International Equity Funds	23,506,275	0	0	0
Pooled Global Equity Funds	0	0	0	0
Pooled Domestic Fixed Income Funds	0	0	0	0
Pooled International Fixed Income Funds	0	0	0	0
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Funds	1,985,491	1,436,853	693,944	185,804
Pooled Real Estate Funds	9,173,291	8,283,835	7,647,616	7,315,301
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	2,256	50,083	300,358	4,968
PRIT Core Fund	10,564,026	11,606,694	9,434,731	11,108,132
Interest Due and Accrued	766,525	822,382	862,864	865,002
Accounts Receivable	1,085,159	2,377,227	741,119	544,757
Accounts Payable	(835,679)	(3,450,801)	(351,964)	(1,271,127)
TOTAL	<u>\$183,747,842</u>	<u>\$167,757,166</u>	<u>\$140,817,979</u>	<u>\$153,472,500</u>
FUND BALANCES				
Annuity Savings Fund	\$66,211,861	\$62,680,735	\$60,372,902	\$61,462,540
Annuity Reserve Fund	23,496,908	23,285,632	22,148,398	16,339,366
Pension Fund	189,538	181,827	932,318	1,995,402
Military Service Fund	28,409	16,843	15,433	14,237
Expense Fund	0	0	0	0
Pension Reserve Fund	93,821,126	81,592,129	57,348,929	73,660,956
TOTAL	<u>\$183,747,842</u>	<u>\$167,757,166</u>	<u>\$140,817,979</u>	<u>\$153,472,500</u>

New Bedford Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2001)	\$56,745,989	\$15,884,183	\$6,647,250	\$13,971	\$0	\$77,838,015	\$157,129,409
Receipts	7,727,497	487,881	14,173,876	265	1,499,555	(4,177,059)	19,712,014
Interfund Transfers	(2,295,687)	2,296,213	(525)		0	0	(0)
Disbursements	(715,259)	(2,328,910)	(18,825,199)	0	(1,499,555)	0	(23,368,923)
Ending Balance (2001)	61,462,540	16,339,366	1,995,402	14,237	0	73,660,956	153,472,500
Receipts	7,661,739	554,689	16,136,844	1,196	1,343,599	(13,053,324)	12,644,745
Interfund Transfers	(7,813,393)	7,818,238	3,253,859	0	0	(3,258,704)	0
Disbursements	(937,984)	(2,563,896)	(20,453,787)	0	(1,343,599)	0	(25,299,266)
Ending Balance (2002)	60,372,902	22,148,398	932,318	15,433	0	57,348,929	140,817,979
Receipts	7,440,588	684,237	16,132,456	3,330	1,335,041	30,157,231	55,752,884
Interfund Transfers	(3,473,350)	3,423,408	5,965,893	(1,920)	0	(5,914,030)	0
Disbursements	(1,659,405)	(2,970,411)	(22,848,840)	0	(1,335,041)	0	(28,813,698)
Ending Balance 2003)	62,680,735	23,285,632	181,827	16,843	0	81,592,129	167,757,166
Receipts	7,452,062	676,313	17,945,916	15,977	1,646,218	18,532,121	46,268,607
Interfund Transfers	(2,576,007)	2,596,811	6,284,719	(2,400)	0	(6,303,124)	0
Disbursements	(1,344,930)	(3,061,848)	(24,222,924)	(2,011)	(1,646,218)	0	(30,277,931)
Ending Balance (2004)	\$66,211,861	\$23,496,908	\$189,538	\$28,409	\$0	\$93,821,126	\$183,747,842

New Bedford Retirement System

STATEMENT OF INCOME

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

FOR THE PERIOD ENDING DECEMBER 31,				
	2004	2003	2002	2001
Annuity Savings Fund:				
Members Deductions	\$6,466,136	\$6,442,906	\$6,555,503	\$6,505,364
Transfers from other Systems	149,323	261,873	127,693	10,705
Member Make Up Payments and Redeposits	204,644	161,740	177,222	167,489
Member Payments from Rollovers	270,024	0	0	0
Investment Income Credited to Member Accounts	<u>361,935</u>	<u>574,070</u>	<u>801,321</u>	<u>1,043,939</u>
Sub Total	<u>7,452,062</u>	<u>7,440,588</u>	<u>7,661,739</u>	<u>7,727,497</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>676,313</u>	<u>684,237</u>	<u>554,689</u>	<u>487,881</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	109,315	76,952	105,686	116,289
Received from Commonwealth for COLA and Survivor Benefits	1,687,801	1,262,969	1,270,037	1,962,188
Pension Fund Appropriation	<u>16,148,800</u>	<u>14,792,536</u>	<u>14,761,121</u>	<u>12,095,399</u>
Sub Total	<u>17,945,916</u>	<u>16,132,456</u>	<u>16,136,844</u>	<u>14,173,876</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	15,893	3,176	997	0
Investment Income Credited Military Service Fund	<u>84</u>	<u>154</u>	<u>199</u>	<u>265</u>
Sub Total	<u>15,977</u>	<u>3,330</u>	<u>1,196</u>	<u>265</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>1,646,218</u>	<u>1,335,041</u>	<u>1,290,263</u>	<u>1,499,555</u>
Sub Total	<u>1,646,218</u>	<u>1,335,041</u>	<u>1,290,263</u>	<u>1,499,555</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	108,526	74,021	116,111	99,661
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	9,461	30,795	12,472	3,671
Miscellaneous Income	1,345	0	0	0
Excess Investment Income	<u>18,412,789</u>	<u>30,052,414</u>	<u>(13,181,906)</u>	<u>(4,280,391)</u>
Sub Total	<u>18,532,121</u>	<u>30,157,231</u>	<u>(13,053,324)</u>	<u>(4,177,059)</u>
TOTAL RECEIPTS	<u>\$46,268,607</u>	<u>\$55,752,884</u>	<u>\$12,591,409</u>	<u>\$19,712,014</u>

New Bedford Retirement System

STATEMENT OF DISBURSEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

FOR THE PERIOD ENDING DECEMBER 31,				
Annuity Savings Fund:	2004	2003	2002	2001
Refunds to Members	\$795,625	\$1,134,125	\$604,514	\$443,063
Transfers to other Systems	549,304	525,280	333,470	272,196
Sub Total	<u>1,344,930</u>	<u>1,659,405</u>	<u>937,984</u>	<u>715,259</u>
Annuity Reserve Fund:				
Annuities Paid	2,942,910	2,797,304	2,430,042	2,151,058
Option B Refunds	118,938	173,107	133,853	177,852
Sub Total	<u>3,061,848</u>	<u>2,970,411</u>	<u>2,563,896</u>	<u>2,328,910</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	13,371,822	12,864,370	10,712,987	8,763,154
Survivorship Payments	893,863	762,640	800,346	677,936
Ordinary Disability Payments	232,443	210,972	218,353	195,650
Accidental Disability Payments	6,875,301	6,389,475	5,781,602	5,420,408
Accidental Death Payments	1,729,784	1,637,643	1,293,686	1,187,945
Section 101 Benefits	350,435	343,104	353,735	267,026
3 (8) (c) Reimbursements to Other Systems	769,276	640,637	636,239	744,086
State Reimbursable COLA's Paid	0	0	656,838	1,568,993
Chapter 389 Beneficiary Increase Paid	0	0	0	0
Sub Total	<u>24,222,924</u>	<u>22,848,840</u>	<u>20,453,787</u>	<u>18,825,199</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>2,011</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	16,500	16,500	15,000	15,000
Salaries	186,170	186,635	181,044	160,545
Legal Expenses	1,827	1,680	0	0
Medical Expenses	0	0	0	0
Rent Expense	21,846	21,205	24,581	0
Travel Expenses	11,899	5,287	15,736	2,811
Service Contracts	13,394	10,343	14,996	0
Fiduciary Insurance	18,587	5,410	6,610	0
Administrative Expenses	70,828	63,057	150,017	265,677
Furniture and Equipment	5,396	4,632	25,019	7,596
Management Fees	1,165,469	908,722	798,729	933,470
Custodial Fees	71,051	49,320	62,785	57,456
Consultant Fees	63,250	62,250	49,083	57,000
Sub Total	<u>1,646,218</u>	<u>1,335,041</u>	<u>1,343,599</u>	<u>1,499,555</u>
TOTAL DISBURSEMENTS	<u>\$30,277,931</u>	<u>\$28,813,698</u>	<u>\$25,299,266</u>	<u>\$23,368,923</u>

New Bedford Retirement System

STATEMENT OF INVESTMENT INCOME

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

FOR THE PERIOD ENDING DECEMBER 31,				
	2004	2003	2002	2001
Investment Income Received From:				
Cash	\$75,870	\$84,397	\$85,270	\$161,837
Short Term Investments	0	0	0	0
Fixed Income	3,372,267	3,881,490	4,413,153	4,639,560
Equities	873,894	587,593	454,964	521,261
Pooled or Mutual Funds	<u>999,617</u>	<u>964,995</u>	<u>454,879</u>	<u>732,332</u>
Commission Recapture	<u>49,600</u>	<u>38,830</u>	<u>15,386</u>	<u>18,259</u>
TOTAL INVESTMENT INCOME	<u>5,371,248</u>	<u>5,557,305</u>	<u>5,423,652</u>	<u>6,073,249</u>
Plus:				
Increase in Amortization of Fixed Income Securities				
Realized Gains	6,511,998	8,621,170	2,606,083	3,284,509
Unrealized Gains	17,854,945	21,754,041	5,877,598	6,566,057
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>766,525</u>	<u>822,382</u>	<u>862,864</u>	<u>865,002</u>
Sub Total	<u>25,133,468</u>	<u>31,197,592</u>	<u>9,346,545</u>	<u>10,715,568</u>
Less:				
Decrease in Amortization of Fixed Income Securities				
Paid Accrued Interest on Fixed Income Securities	(514,472)	(551,339)	(618,218)	(762,551)
Realized Loss	(5,360,433)	(1,681,180)	(8,006,434)	(6,638,185)
Unrealized Loss	(2,710,089)	(1,013,598)	(15,762,640)	(9,759,712)
Custodial Fees Paid	0	0	0	0
Consultant Fees Paid	0	0	0	0
Management Fees Paid	0	0	0	0
Board Member Stipend	0	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	(822,382)	(862,864)	(865,002)	(877,120)
Sub Total	<u>(9,407,376)</u>	<u>(4,108,981)</u>	<u>(25,252,294)</u>	<u>(18,037,568)</u>
NET INVESTMENT INCOME	<u>21,097,340</u>	<u>32,645,916</u>	<u>(10,482,097)</u>	<u>(1,248,752)</u>
Income Required:				
Annuity Savings Fund	361,935	574,070	801,321	1,043,939
Annuity Reserve Fund	676,313	684,237	554,689	487,881
Military Service Fund	84	154	199	265
Expense Fund	<u>1,646,218</u>	<u>1,335,041</u>	<u>1,290,263</u>	<u>1,499,555</u>
TOTAL INCOME REQUIRED	<u>2,684,551</u>	<u>2,593,502</u>	<u>2,646,473</u>	<u>3,031,640</u>
Net Investment Income	<u>21,097,340</u>	<u>32,645,916</u>	<u>(10,482,097)</u>	<u>(1,248,752)</u>
Less: Total Income Required	<u>2,684,551</u>	<u>2,593,502</u>	<u>2,646,473</u>	<u>3,031,640</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$18,412,789</u>	<u>\$30,052,414</u>	<u>(\$13,128,569)</u>	<u>(\$4,280,391)</u>

New Bedford Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$4,470,737	2.66%	100
Short Term		0.00%	100
Fixed Income	52,140,311	31.03%	40 - 80
Equities	90,019,846	53.58%	40
Pooled Short Term Funds		0.00%	
Pooled Domestic Equity Funds		0.00%	
Pooled International Equity Funds		0.00%	
Pooled Global Equity Funds		0.00%	
Pooled Domestic Fixed Income Funds		0.00%	
Pooled International Fixed Income Funds		0.00%	
Pooled Global Fixed Income Funds		0.00%	
Pooled Alternative Investment Funds		0.00%	
Pooled Real Estate Funds	8,283,835	4.93%	
Pooled Domestic Balanced Funds		0.00%	
Pooled International Balanced Funds		0.00%	
PRIT Cash Fund		0.00%	
PRIT Core Fund	<u>13,093,630</u>	<u>7.79%</u>	100
GRAND TOTALS	<u>\$168,008,359</u>	<u>100.00%</u>	

For the year ending December 31, 2004, the rate of return for the investments of the Retirement System was 12.88%. For the five-year period ending December 31, 2004, the rate of return for the investments of the Retirement System averaged 5.39%. For the twenty-year period ending December 31, 2004, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Retirement System was 8.92%.

New Bedford Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

The Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

May 28, 1997

- 20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond-rating services, however, 5% of the market value of fixed income investments may be invested in bonds with a minimum quality rating below Baa or equivalent as rated by one or more recognized bond-rating services.
- 20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 5% of the market value of fixed income investments may be invested in bonds with a minimum quality rating below Baa or equivalent.

December 31, 1996

- 20.03(1) Equity investments shall not exceed 65% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market.

May 30, 1996

- 20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds and Eurobonds which shall be limited to 12% of the total fixed income portfolio valued at market.

May 2, 1996

- 20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

January 18, 1996

- 16.02(4) The New Bedford Retirement System may incur expenses for consultant services by Wyatt Asset Services, Inc. and may charge such expenses against earned income from investments provided that such expenses do not exceed \$17,500 per year for calendar years 1995, 1996 and 1997.

February 21, 1992

- 4.03 Copies to be sent to PERAC
- (1) Within four (4) weeks of the close of each month, after all entries for the month have been posted and the trial balance performed, the board shall send to the Public Employee Retirement Administration Commission a photocopy of the following for the month:
- (a) cash book entries;
 - (b) trial balance; and
 - (c) journal entries.

New Bedford Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

New Bedford Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

New Bedford Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

The Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

June 9, 2000

Policy on Enrollment

Following are the employment classifications of employees who are eligible for membership in the New Bedford Contributory Retirement System pursuant to M.G.L. c. 32, section 3(2)(d):

New Bedford Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

June 9, 2000 (Continued)

Policy on Enrollment

	<u>Status</u> <u>Minimum Hours</u>
Full-Time	Mandated
Part-Time (all categories)	20 hours or more per week on a regular basis
Full-Time Temporary	At the completion of thirty (30) consecutive weeks of temporary employment from the start of service
Full-Time Provisional	Mandated

Following are employment classification of employees who are not eligible for enrollment into the New Bedford Contributory Retirement System:

<u>Status</u>	<u>Minimum Hours</u>
Seasonal	
Intermittent	
Temporary	Less than thirty (30) consecutive weeks of temporary employment

This supplemental regulation establishes rules for membership of less time full time employees and is consistent with the provisions of G.L. c. 32.

September 11, 1987

Employees must work a minimum of twenty (20) hours a week to qualify for membership.

December 20, 1984

Employees who work in excess of twenty (20) hours a week must become members of the New Bedford Retirement System.

Earnings over \$750.00 are required to qualify for membership. (Repealed 6/27/96).

To earn service credit, municipal board members are required to work (2) years of paid board work, to earn one (1) year of credit. If dual membership, the salary is computed rather than additional credit.

Part-time employees, if always part-time, receive full credit for years of service. Part-time employees who change to full-time positions are granted one (1) year of service credit for 2-3 years of service depending on hours worked.

Employees in the school department will not receive service credit while collecting unemployment compensation due to a lay-off.

To provide an examined individual, or his designated agent in writing, a copy of his medical panel report unless there is a special caveat from any of the doctors involved.

New Bedford Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Acting City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Peter C. Schmidt

Appointed Member: Arthur J. Caron Esq. Term Expires: 6/30/06

Elected Member: Paul M. Lestage Term Expires: 6/30/07

Elected Member: Edward J. Wiley Term Expires: 6/30/07

Appointed Member: Dennis C. Brightman Term Expires: 2/1/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$30,000,000
Elected Member:)	Travelers (\$10M Primary)
Appointed Member:)	Federal Insurance \$10M Excess of primary
Staff Employee:)	Executive Risk \$10M excess of \$20M

New Bedford Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Mellon Human Resources and Investor Solutions** as of **January 1, 2004**.

The actuarial liability for active members was	\$166,990,739
The actuarial liability for retirees, beneficiaries, and inactives was	213,959,717
The total actuarial liability was	380,950,456
System assets as of that date were (actuarial value)	175,663,857
The unfunded actuarial liability was	\$205,286,599
The ratio of system's assets to total actuarial liability was	46.1%
As of that date the total covered employee payroll was	\$75,414,151

The normal cost for employees on that date was 7.9% of payroll

The normal cost for the employer was 4.5% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.5 % per annum

Rate of Salary Increase: 5.0 % per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$ 175,663,857	\$ 380,950,456	205,286,599	46.1%	\$75,414,151	272.2%
1/1/2001	\$ 157,129,409	\$ 305,813,631	148,684,222	51.4%	\$75,089,435	198.0%
1/1/1998	\$ 133,140,386	\$ 248,033,340	114,892,954	53.7%	\$63,312,483	181.5%
1/1/1996	\$ 84,143,582	\$ 189,485,031	105,341,449	44.4%	\$45,453,241	231.8%
1/1/1992	\$ 67,895,696	\$ 177,053,757	109,158,061	38.3%	\$41,886,567	260.6%

New Bedford Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Superannuation	36	45	58	53	0	17	80	170	48	41
Ordinary Disability	1	0	2	3	0	6	1	1	0	0
Accidental Disability	10	6	8	11	0	8	4	16	22	11
Total Retirements	47	51	68	67	0	31	85	187	70	52
Total Retirees, Beneficiaries and Survivors	1,590	1,571	1,595	1,594	1,594	1,660	1,678	1,800	1,727	1,759
Total Active Members	2,343	2,354	2,361	2,425	2,277	2,610	2,622	2,288	2,267	2,339
Pension Payments										
Superannuation	\$7,405,706	\$7,523,883	\$8,229,726	\$8,600,172	\$8,854,064	\$9,252,316	\$8,763,154	\$10,712,987	\$12,864,370	\$13,371,822
Survivor/Beneficiary Payments	540,133	532,238	550,617	564,820	560,069	616,428	677,936	800,346	762,640	893,863
Ordinary Disability	282,128	246,876	234,404	228,668	233,571	268,731	195,650	218,353	210,972	232,443
Accidental Disability	4,883,404	5,002,267	5,132,387	5,231,204	5,500,579	5,615,762	5,420,408	5,781,602	6,389,475	6,875,301
Other	1,693,904	1,876,906	1,510,487	1,566,820	1,627,949	1,731,148	1,454,971	1,647,421	1,980,747	2,080,219
Total Payments for Year	<u>\$14,805,275</u>	<u>\$15,182,170</u>	<u>\$15,657,621</u>	<u>\$16,191,684</u>	<u>\$16,776,232</u>	<u>\$17,484,385</u>	<u>\$16,512,119</u>	<u>\$19,160,709</u>	<u>\$22,208,204</u>	<u>\$23,453,648</u>

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